



WEEKLY ECONOMIC DIGEST

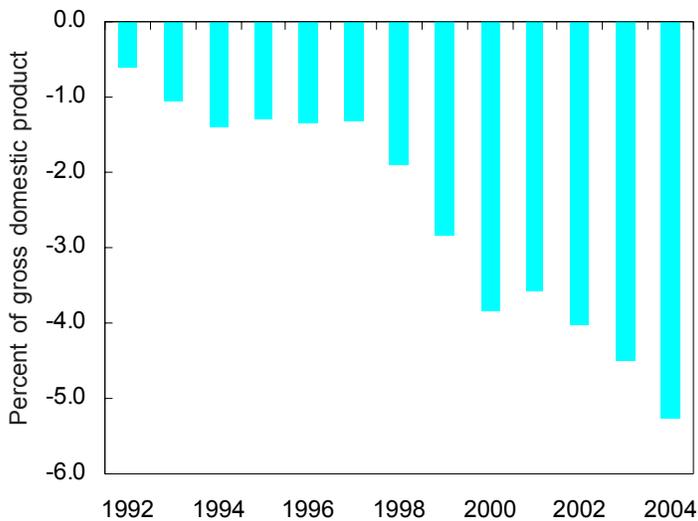


JOINT ECONOMIC COMMITTEE – DEMOCRATIC STAFF
SENATOR JACK REED (D-RI)

February 15, 2005

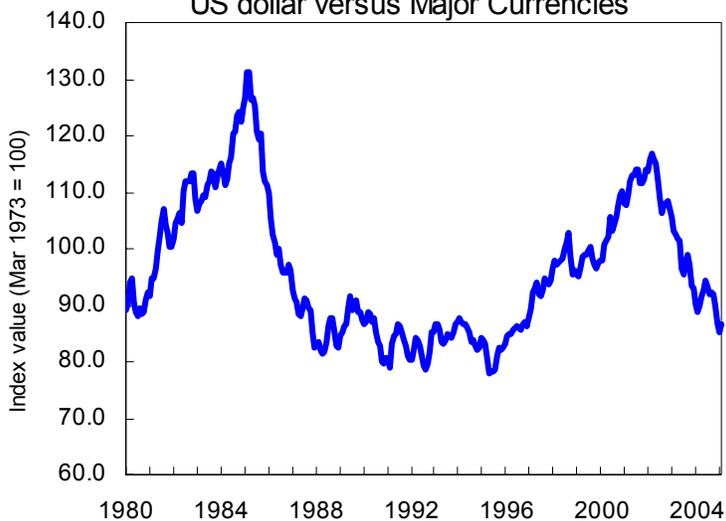
U.S. Trade in Goods and Services Reached Record Deficit Last Year

Balance of Trade in Goods and Services



Source: Census Bureau and Bureau of Economic Analysis, U.S. Department of Commerce.

Real Trade-Weighted Exchange Value of the US dollar versus Major Currencies



Source: Federal Reserve Board

- **The trade deficit hit a record high last year.** For 2004 as a whole, the trade deficit in goods and services—the amount by which imports exceeded exports—totaled \$617.7 billion, or 5.3 percent of gross domestic product (GDP), making it the largest deficit on record (see top chart). Despite narrowing slightly in December, the trade deficit of \$56.4 billion for that month remained near November’s record level of \$59.3 billion. Exports rose by \$3.1 billion (3.2 percent) in December while imports were up only \$0.1 billion (0.1 percent).
- **Falling oil prices held down imports in December.** Prices of imported crude petroleum dropped sharply, contributing to a \$1.9 billion decline in the value of oil imports in December. That decline nearly offset a \$2 billion rise in nonpetroleum imports. Most categories of exports showed gains in December as overseas sales of industrial supplies, capital goods, and automotive and consumer goods all rose after accounting for inflation.
- **The dollar’s decline should eventually spur export growth.** Because the level of exports is now so far below the level of imports, export growth will have to outpace growth of imports by a substantial margin for the trade deficit to be reduced. A turnaround in the trend for the goods and services deficit may be difficult to achieve very soon, in part because the U.S. economy is showing more strength than are those of our leading trading partners. Nevertheless, most forecasters are expecting the deficit to begin declining over the next year, in part as a result of the 25 percent depreciation in the real value of the dollar against major currencies over the past three years (see bottom chart).

The Economy at a Glance	Jan	Dec	Nov	Oct	2004 Qrt 4	2004 Qrt 3	2004 Qrt 2	2004 Qrt 1	2004	2003
Economic Activity										
Real GDP (% growth)	—	—	—	—	3.1	4.0	3.3	4.5	4.4	3.0
Industrial Production (% growth)*	n.a.	10.0	2.4	10.0	4.1	2.7	4.3	5.6	4.1	0.0
Capacity Utilization (level, %)*	n.a.	79.2	78.6	78.5	78.8	78.2	77.9	77.3	78.0	75.5
Civilian Unemployment Rate (level, %)	5.2	5.4	5.4	5.5	5.4	5.5	5.6	5.6	5.5	6.0
Housing Starts (thousands)*	n.a.	2004	1807	2065	1959	1969	1920	1943	1948	1853
Real Disposable Personal Income (% growth)	n.a.	9.4 [#]	2.4	2.4	4.1 [#]	2.0	2.8	2.4	3.1 [#]	2.3
Retail Sales (% growth)*	n.a.	15.4	1.2	13.3	10.3	5.7	6.6	10.4	7.6	5.3
Personal Saving Rate (level, %)	n.a.	0.1 [#]	0.3	0.2	0.2 [#]	0.5	1.3	1.0	0.8 [#]	1.4
Inflation & Productivity										
CPI-U Inflation, all items (% growth)	n.a.	-1.2	2.4	7.4	3.0	0.6	4.8	5.1	2.7	2.3
Core CPI-U Inflation (% growth)	n.a.	2.4	2.4	2.4	2.0	1.8	2.3	2.9	1.8	1.5
Employment Cost Index (% growth)	—	—	—	—	2.8	3.6	4.1	4.5	3.7	4.1
Output per Hour (% growth)	—	—	—	—	0.8	1.8	3.9	3.7	4.1	4.4
Financial Markets										
T-bill Rate, 3-month (level, %)	2.33	2.19	2.07	1.76	2.01	1.49	1.08	0.92	1.37	1.01
T-note Rate, 10-years (level, %)	4.22	4.23	4.19	4.10	4.17	4.30	4.60	4.02	4.27	4.01
Federal Funds Rate (level, %)	2.29	2.16	1.93	1.76	1.95	1.43	1.01	1.00	1.35	1.13
Dow Jones Industrial Avg (index level)	10540	10673	10412	10002	10362	10130	10289	10488	10317	8994

Sources: Bureau of Economic Analysis, U.S. Department of Commerce; Bureau of the Census, U.S. Department of Commerce; Bureau of Labor Statistics, U.S. Department of Labor; Board of Governors of the Federal Reserve System; Wall Street Journal; and Haver Analytics.

Notes: Except where otherwise noted, values in the table represent percentage growth measured at seasonally adjusted **annual** rates. Growth in retail sales includes food services. Core CPI-U inflation is the percentage change in the CPI-U excluding food and energy as reported by the Bureau of Labor Statistics. The Employment Cost Index is for workers in private industry. Productivity is output per hour for private nonagricultural establishments. The 3-month Treasury bill rate is the secondary market rate.

n.a. Denotes that data are not yet available.

* Subject to revision over the next week.

Adjusted by the JEC staff to exclude the temporary effects of Microsoft's special dividend payment in December.

Upcoming Economic Releases:

- **Advance Monthly Sales for Retail and Food Services, January 2005** [Release: Tuesday, February 15]
- **New Residential Construction, January 2005** [Release: Wednesday, February 16]
- **Industrial Production and Capacity Utilization, January 2005** [Release: Wednesday, February 16]
- **Producer Price Indexes, January 2005** [Release: Friday, February 18]